



MAMUSA LOCAL MUNICIPALITY



DEBT MANAGEMENT POLICY



CONTENTS	PAGES
1. DEFINITIONS	3
2. OBJECTIVES	3
3. SCOPE OF THE POLICY	4
I. Conditions on which municipal debt may be incurred	
II. Security	
III. Approvals	
IV. Financial viability	
4. EFFECTIVE DATE	6



1. DEFINITIONS

“Chief financial officer” means the staff member designated as such by the municipal manager in terms of section 80 (2) (a) of the Act and includes and other staff member acting in this capacity;

“Debt” means –

- (a) A monetary liability of obligation created by a financing agreement, note, debenture, bond, bank overdraft, or the issuance of municipal securities;
- (b) A contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

“Delegation” in relation to a duty, includes an instruction or request to perform the duty, and delegate has a corresponding meaning;

“Financial statements” means statements consisting of at least –

- (a) A balance sheet;
- (b) An income statement;
- (c) A cash-flow statement;
- (d) Any other statements that may be prescribed; and
- (e) Any notes to these statements

“Financing agreement” includes any long-term agreement, lease, instalment purchase contract, or hire purchase agreement under which a municipality undertakes to pay the capital cost of property, plant, or equipment over a period of time.

“Lender” in relation to a municipality, means a person who provides debt finance to a municipality

“Long-term debt” means a debt which is repayable over a period exceeding one year

“Security” means a pledge, mortgage, cession or other form of collateral intended to secure the interest of a credit.

“Short-term debt” means a debt which is repayable over a period not exceeding one year

2. OBJECTIVES

The objectives of this policy are to:

- a) Record the circumstance under which a municipality may incur debt.
- b) Describe the conditions that must be adhered to by the municipal manager or his/her delegate when a loan application is submitted to council for approval.
- c) Record the key performance indicators to ensure access to the money market.



3. SCOPE OF THE POLICY

The policy deals with:

- V. Conditions on which municipal debt may be incurred
- VI. Security
- VII. Approvals
- VIII. Financial viability

I. CONDITIONS ON WHICH MUNICIPAL DEBT MAY BE INCURRED

Statutory conditions:

- a) Conditions under which a municipality may incur short and long term debt are prescribed in MFMA No. 56 of 2003 section 45 to 50 of this act.

Administration conditions

a. To obtain council's approval for a long term loan the municipal manager or his/her delegate must submit :- (Submit to council a motivation outlining the purpose, objectives, and all other related information may be required to ensure that the asset to be acquired will add value to the municipality).

- I. The bid committee's recommendations after having obtained and evaluated quotations from at least three financial institutions stating the loan period, comparable interest rates and administration costs
- II. A long term operating budget reflecting the effect of depreciation and/or capital costs on service charges.
- III. Statements from the financial institutions that the proposed instruments are in line with legislations.
- a) To obtain council's approval for bank overdraft on service charges, call bonds or short term loans the municipal manager or her/his delegate must submit: (sec.45) – Submit motivation to council outlining the purpose and objective.
 - I. A cash flow statement indicating the anticipated cash shortfalls and future income streams that will repay the short-term debt
 - II. Monthly cash flow reports indicating progress towards the repayment of the bank overdraft, call bonds or short-term loan.

II. SECURITY

- Conditions under which a municipality may provide security for its' debt obligation are prescribed in MFMA No. 56 of 2003 sec.48



III. APPROVALS

- If the council approves the loan, the municipal manager should enter into a financial agreement with the recommended financial institution on council's behalf. The Chief Financial Officer must ensure that the enter terms and conditions are as originally agreed before the council is committed
- All municipal loan commitments must be recorded in a loans register reflecting:
 - a) The type of a loan
 - b) Lending institution
 - c) Purposes of loans
 - d) Loan periods
 - e) Interest rates
 - f) Capital repayment (redemption)
 - g) Due dates
 - h) Securities
 - i) Assets linked to loans
 - j) Depreciation cost of the asset
 - k) Difference between interest and redemption and depreciation cost
- Sufficient provisions must be in the budget to depreciate assets linked to the loan. Where the depreciation is insufficient to cover the interest and redemption costs additional provisions for the difference between depreciation and interest and redemption must be made.
- The municipal manager or his/her delegate must arrange for the relevant documentation to be in order for payment to be made timeously i.e. debit order.

IV. FINANCIAL VIABILITY

- The municipal manager or his/her delegate must ensure that the municipality is financially viable and will be able to access the capital market. A report in this regard must be submitted to council after the completion of the annual financial statement and the end of each financial year.
- The Chief Financial Officer must complete a financial analysis of at least the following ratios and norms and recommend possible steps to rectify deviations to the council
 - (a) Coverage of Short-term Portion of Long Term Liabilities (STPLTL)
$$\frac{[(\text{Investment} + \text{cash}) - \text{bank overdraft}]}{\text{STPLTL}}$$

NORM: 100% COVERAGE
 - (b) Short-term debt
$$\frac{\text{Bank overdraft} + \text{STPLTL} + \text{call loans}}{\text{total income}}$$

Norm: less than 8.33% of income
 - (c) Debtors test



(Gross debtors/total income from rates and service charges) 365

Norm: 42 to 56 days

(d) Creditors test

(Creditors/total expenditure) 365

Norm: less than 60 days

(e) Capital cost burden

Total capital cost/total income

Norm: less than 20%

(f) Staff cost

Salary/total gross expenditure

Norm: less than 35% of gross expenditure

(g) Grant dependency

Grant & Subsidies/total income

Norm: less than 4% of income

(h) Cash funded operating budget

Provision for WC + bad debt/gross increase in debtors

Norm: 100% coverage

- The municipal manager must indicate the steps already taken to address deviations from the norms or any other actions required to ensure access to the capital market.

4. EFFECTIVE DATE

The effective date of this policy or any amendments thereto, shall be the date of its adoption by Council.

Attach the reporting template to council